

APPENDIX B

Sample Audit Agreement

SAMPLE AUDIT AGREEMENT

1. This Agreement, between (the Organization) and (the Contractor), shall be effective as of the date of execution below.
2. The Contractor will audit the financial records, accounts and statements of (the Organization) as of _____ and for the year ended _____.
3. The audit will be conducted in accordance with generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Office of Management and Budget (OMB) Circular A-133; and the LSC Audit Guide for Recipients and Auditors.
4. The audit will include tests of the accounting records and such other audit procedures as necessary to express an independent opinion on the statement of financial position and the related statements of activities, and cash flows, and Reports on Compliance with Laws and Regulations and the Internal Control Structure.
5. The Contractor will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Under the concept of reasonable assurance, the Contractor will exercise its judgement about the number of transactions to be examined and the areas to be tested. There is, therefore, a risk that material errors, irregularities or illegal acts, including fraud or defalcations, may exist and not be detected. The Contractor will, however, advise immediately the LSC OIG of any such matters that come to its attention. The Contractor's responsibility is limited to the period covered by the audit and does not extend to matters that might arise during any later periods.
6. The Contractor, as part of the engagement, will request written representations from (the Organization) attorneys. Prior to the conclusion of the audit, the Contractor will also request certain written representations from (the Organization) management about the financial statements and related matters. It is understood that these financial statements are the responsibility of management. This responsibility includes the maintenance of adequate records and related internal control structure policies and procedures, the selection and application of accounting principles, and the safeguarding of assets. The Contractor will advise management about the appropriate accounting principles and their application, and will assist in the preparation of the financial statements, if necessary.
7. The Contractor understands that it has the responsibility:

- a) to prepare the audit reports in accordance with the requirements of *Government Auditing Standards*, OMB Circular A-133, and the LSC Audit Guide for Recipients and Auditors;
 - b) to prepare and electronically submit a Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions;
 - c) to provide a special report to the OIG on noncompliance in the event that the recipient fails to do so in accordance with the requirements of the LSC Audit Guide for Recipients and Auditors; and
 - d) to notify OIG within five (5) business days of its termination or cessation of services to the recipient.
- 8. The Contractor will also prepare the Federal tax return (IRS form 990) and [State] State return (where required) for the year ending _____.
- 9. Entrance and exit conferences will be held with the (the Organization) management, and the Contractors' representatives.
- 10. (The Organization) management responses to draft audit reports will be delivered to the Contractor for inclusion in the final reports, where practical.
- 11. The contractor will deliver to the (the Organization):
 - a. three copies of the draft audit reports no later than _____;
 - b. the original and XX copies of the financial audit reports no later than ____ days after closing; and
 - c. the State and Federal tax returns within a reasonable time after the acceptance of the final audit reports.
- 12. In consideration for the satisfactory performance of the audit, the Contractor will receive \$XXXXXX, paid as follows: _____
- 13. The Contractor will immediately notify the (Organization) of any significant and/or reportable conditions noted during the course of the audit.
- 14. Audit working papers will be prepared in accordance with *Government Auditing Standards*, and will be retained by the Contractor for at least three (3) years from the date of the final audit report. The working papers will be available for examination upon request by

authorized representatives of LSC and the Comptroller General of the United States. The audit working papers will be subject to a Quality Assurance Review conducted by the LSC OIG.

15. The certifications numbered A through H are incorporated by reference and made a part of this Agreement.
16. In the event that there is a significant change in funding from the LSC and/or a change in the legal or regulatory requirements applicable to this audit, (the Organization) shall be allowed either to: 1) withdraw from this engagement after paying in full for any and all services rendered by (the Contractor) prior to the date of withdrawal; or 2) seek, without penalty, a negotiated modification of this agreement which would result in the satisfaction of the new legal requirements through the services to be performed under the modified agreement.
17. The Organization) may, at its option and through affirmative action, extend this Agreement for the two (2) option periods covering FY9X and FY9X. (The Organization) decision on whether or not to exercise the option will be made separately for each of the option years and will be predicated upon the quality of performance during the prior contract period(s), the degree of the Contractor's compliance with the contract schedule for deliverables, the availability of funds or other justifying reasons. The contracts for the option years will be governed by the terms of this Agreement, except that due dates will be updated and the Contractor will be paid the following amounts for each of the two option periods:

Option Period 1 (_____, 199X)	\$XXXXXX
Option Period 2 (_____, 199X)	\$XXXXXX
18. The fees set by the Agreement are based upon the following assumptions: management will respond promptly to all requests for basic information and/or documentation; the books will have been posted through the year; all adjustments will have been posted; management personnel will prepare cash and other confirmations; and that year-end schedules supporting the account balances will be provided.
19. The Contractor will give an oral presentation of its audit report to the Board of Directors.
20. If circumstances arise that will require additional services and time by the Contractor, the Contractor will notify the (Organization) and obtain its agreement prior to undertaking such activities. The hourly fee for such agreed to services will be \$XX.
21. The terms of this Agreement may be modified only in writing, signed by duly authorized representatives of the parties.

22. If the parties are unable to resolve a dispute regarding the acceptability of deliverables under this agreement, the dispute will be submitted to the American Arbitration Association for resolution through binding arbitration.
23. This Agreement, which includes the matter specifically incorporated by reference, constitutes the entire agreement between the parties.
24. This Agreement has been made, and shall be construed, in accordance with the laws of (the State).

Executed on the _____ day of (Month), (Year) for the parties by their duly authorized representatives.

[Authorized Official]

[Authorized Audit Firm]

CERTIFICATIONS

- A. The individual signing certifies that he/she is authorized to contract on behalf of the Contractor and to make these certifications.
- B. The individual signing certifies that the Contractor is not involved in any agreement to pay money or other consideration for the execution of this agreement, other than to an employee of the Contractor.
- C. The individual signing certifies that the Contractor meets the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States.
- D. The individual signing certifies that he/she is aware that all individuals to be assigned to the audit have met the GAO Continuing Education Requirement of 80 hours of continuing education every two years; and that 24 hours of this education have been in subjects directly related to the auditing of government grants.
- E. The individual signing certifies that he/she has read and understands the GAO requirement of an external quality control review at least once every three years.
- F. The individual signing certifies that the Contractor, and any individuals to be assigned to the audit, do not have a record of substandard audit work and have not been debarred or suspended from doing work with any Federal, state or local government. (If the Contractor or any individual assigned to the audit has been found in violation of any state or AICPA professional standards, this information must be disclosed.)
- G. The individual signing certifies that the Contractor does carry professional malpractice insurance or is otherwise adequately self-insured.

- H. The individual signing certifies that the contractor does not discriminate against any employee or applicant for employment because of race, color, religion, sex, age, national origin, disability, or any other basis prohibited by law. The contractor shall take affirmative action to insure that employees are treated during their employment, without regard to race, color, religion, sex, age, national origin, disability, or any other basis prohibited by law. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or forms of compensation; and selection for training, including apprenticeship. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, national origin, disability or any other basis prohibited by law.

Dated this _____ day of _____, 19_____.

(Contractor's Name)

(Signature of Contractor's Representative)

(Printed Name and Title of Individual Signing)